

4 June 1959

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MEMORANDUM FOR THE RECORD

SUBJECT: Desirability of a more complete coverage of economic developments in the Satellite countries

1. Whatever may have been the case during the Lenin and Stalin eras, there seems little doubt that after the failure of Communism to win over the industrial workers of the West by promises of social justice, freedom from exploitation, "real" democracy, etc., and particularly since the nuclear stalemate, Khrushchev is telling the truth when he now stresses primary Communist reliance for world victory on the economic factor.

2. "Economics," he told the XXI Congress, "is the main field in which the peaceful competition of socialism and capitalism is taking place . . . the fate of contemporary capitalism is determined not only by countries with a high standard of development but by countries where the level of production is immeasurably lower."¹

3. Referring specifically to a European satellite, Novotny was even more explicit. Addressing the Czechoslovak National Front Conference on 25 April, he said: ". . . strengthening and broadening socialist production relations and continuously advancing the productive forces of the country determines the ultimate victory of socialism . . . socialism will defeat capitalism if it succeeds in fully satisfying all the demands of the working people." Novotny did not even trouble to recall the usual promises of what communism would do for art, literature, culture and education, but instead spelled what they must do for communism.

¹ To make communism appear still more attractive, Khrushchev claimed that in communist countries every individual benefited from increased production, whereas in capitalist countries, only the wealthy did.

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4. As for the underdeveloped countries, in the words of Barbara Ward: "The appeal of Communism is not so much its dialectic or its metaphysics - save to a minute group of intellectuals in search of a new faith - but its ability to carry backward countries through the tremendous crisis of modernization."¹ Up-to-date knowledge of economic developments in the Communist orbit is, therefore, of paramount importance for the West.

5. Whereas economic developments in the USSR and China appear to be carefully studied by the intelligence community and by non-governmental institutions, the importance of developments in the European satellites of the USSR seems to be insufficiently appreciated.

6. In the first place, in the words of Jan Wazielaki, "the share of the dependent countries in the Soviet-bloc drive (in Asia and Africa) is far larger than is popularly realized," and "their contributions to the Soviet Union's rising economic potential has been no less important."² In the second place, although we need not go so far as to assume that Novotny meant the Communist Party in Czechoslovakia or anywhere else will politely bow out if it does not "succeed in satisfying all the demands of the working people," it is nevertheless true that the degree of acceptance of the communist regimes by their subjects, and therefore the degree of their stability, is closely connected with the material welfare of the country. The attractiveness of communism to underdeveloped countries will depend to a large extent upon what it has to show for itself in the industrially backward satellite countries. The failure of communism to raise the standard of living substantially and rapidly in predominantly agrarian countries cannot fail to offset in some degree successes scored in the USSR or China. Communism could at any rate not be represented as a quick infallible nostrum for backward countries.

¹ Five Ideas that Changed the World (Norton, 1959).

² Communist Economic Strategy: The Role of East Central Europe (National Planning Association, 1958) p. 1.

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7. The proposition that the degree of economic success under communism has a positive effect on popular acceptance of Communism can also be inverted. Novotny himself, in the above-mentioned speech, said: ". . . the speed of our construction depends directly on the consciousness of the working people . . . therefore . . . the Communist Party is engaging in increasingly broad ideological work." In other words, Novotny confirmed the existence of a vicious circle in which the ultimate triumph of communism depends upon the material success it achieves, and yet this material success in turn depends largely upon the degree of public acceptance of the communist ideology. Neither the alleged intrinsic superiority of the communist economy nor coercion is in itself sufficient; the people also must have faith in communism and must dedicate themselves to its triumph.

8. If this be true and the rate of economic development in a communist-dominated country depends to a large extent upon the degree of acceptance of communist ideology by its people, the index of economic development would then provide a valuable indication of their mental attitude. However unreliable communist statistics may be, it is a fact that they themselves show the rate of development to be uneven, a phenomenon which is not solely explicable by the law of diminishing returns and which is also contrary to the communist claim of equal development of socialist economies. It might be said that the level of economic leadership is higher in some countries than in others, but since we are dealing with rates of development, we would still have to explain why the economic leadership has improved in one country more than in another. It might also be said that some countries are more richly endowed with raw materials than others, but that still would not explain differences existing in rates of development. Moreover, the deficiencies are susceptible to correction by proportionate imports from the USSR.

9. Incidentally, if, as Khrushchev told the XXI CPSU Congress, "industrial output in Poland was 5.5 times more than the pre-war level . . . in Rumania almost 4 times, in Hungary over 4 times . . ." then the gap between Polish production on the one hand, and Rumanian and Hungarian production on the other, as well as between Rumanian and Hungarian, is widening instead of narrowing. How is this then to be reconciled with the law of even development of socialist countries or with the announcement that they all "will more or less

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simultaneously reach the highest phase of communist society" which presupposes the attainment of an approximately equal economic level?

10. The Communists themselves are now regularly supplying us with data on economic developments in the satellites and the USSR. Unfortunately, the data are unreliable, frequently contradictory, and usually purposefully difficult to compare without painstaking adjustment.¹ Furthermore, to be meaningful for the purposes outlined above, they would have to be adjusted to take account of the law of diminishing returns, to allow for a period of reconstruction of countries badly damaged during the war, and possibly other factors.

11. Another related field in which systematic exploitation by specialists should yield valuable results is the standard of living, strongly affecting as it does, the morale of the population. Questions on this subject are answered by almost all defectors from and recent visitors to, the satellite countries, but little attempt has been made to distill from them data which would permit comparisons in time, and also between countries. The difficulties are admittedly great, but they undoubtedly could be reduced by concentrating on the comparatively simple, but for our purposes significant questions: Do most people think they are now living better or worse than under capitalism? Than in 1958 or 1957? What is important is what the people think, not what the true situation is.

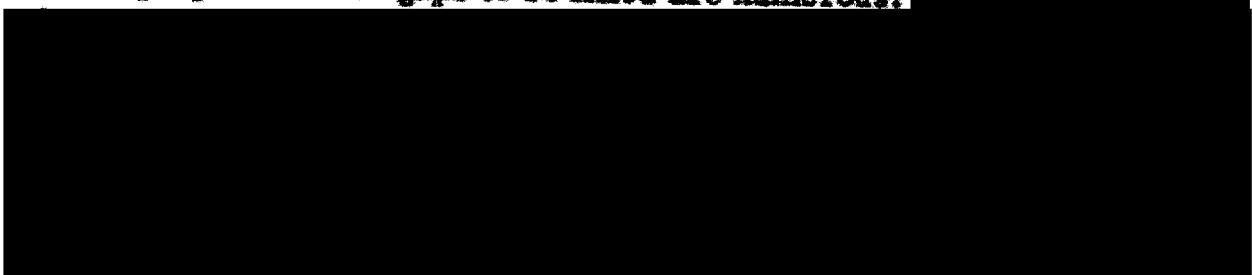
12. It may, of course, turn out that the rate of economic development in the satellites does not prove to be a reliable barometer of popular resistance to communism, although the chances are that it would, for otherwise it would be hard to explain why one country should be doing better economically under communism than another, considering that the same economic "laws" and methods are applied in all of them and that they all have the benefit of Soviet "advisers." It may also prove impossible to reach significant conclusions as to

¹ Now, for instance, are the figures cited by Khrushchev to be reconciled with those given in the CEMA decision of 16 May 1959, showing that "in 1958 industrial production as compared with 1950 increased as follows: . . . Poland 2.8 times, Rumania 2.7 times . . . Hungary 2.3 times. . . "?

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standards of living. However, I submit that the effort would not be wasted, for the information gathered is bound to be of value for other purposes. The gaps to be filled are numerous. 25X1X7



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13. ORR output in this field, I believe, should be considerably increased and kept up to date. Quarterly studies on economic developments in each of the satellites and studies comparing developments there, in the USSR, and in some selected western countries would be highly desirable. As of 1 June 1959, the only satellite country on which a recent economic study is available appears to be Poland (of March 1959). The most recent study of the Hungarian economy is dated December 1958 and of the East German economy July 1958. The latest ORR study on the satellites as a group seems to be "Economic Factors in the Stability of the European Satellites," contributed to NIE 12-58 and dated 23 December 1957. It hardly mentions Rumania, Bulgaria, or Albania. Economic surveys published outside the Agency are of little use for the purposes outlined above. The UN Economic Survey of Europe, besides being highly technical, is perforce not in a position to question the accuracy of the official data supplied by UN members, nor does it attempt to interpret the figures given. Such publications need to be digested, summarized, and interpreted by ORR experts specifically for use by non-economists engaged in the study of overall developments in the communist orbit. If, as seems to be the case, ORR lacks the manpower needed for the task, the solution might be to entrust it to some outside organization, Radio Free Europe for example, which might assemble a staff of economists of Eastern European background, enjoying the advantages of familiarity with the target countries and of being able to save valuable time by reading satellite publications in the original.

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¹ Studies in Intelligence, Vol. 3, No. 9, 1959, p. 31.

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